Change in Global Trade Rules for Textiles and Apparels: Likely Upcoming Adjustments by Foreign Suppliers to the U.S Market (EG Summary of an ITC Report)

INTRODUCTION: This technical briefing summarizes findings of a recently published assessment by the U.S. International Trade Commission (ITC) on the likely adjustment, by the textile and clothing (T&C)[1] industries of certain T&C-exporting countries, to the complete phase-out by T&C importing countries of T&C import quotas by January 1, 2005. This ten-year phase-out of quotas, mandated under the 1995 WTO Agreement on Textiles and Clothing (ATC), which replaced the internationally agreed Multi-Fiber Agreement (MFA) on quotas, has taken place in stages since January 1, 1995. The ITC report bases its assessment of the likely adjustments on its detailed empirical description and comparison of the competitiveness of these supplier-countries' T&C industries *vis a vis* one another and on other relevant factors, such as U.S. T&C importers' concern to maintain geographically diversified sources of supply.

BACKGROUND: By January 1, 2005, under the 1995 WTO Agreement on Textiles and Clothing (ATC), the MFA's T&C quotas will have been completely replaced by the much more modest restraint of safe guard provisions (which the ATC report still describes, however, as quotas)[2] and quotas on T&C exports of non-WTO member countries. The safeguards, plus remaining quotas on non-WTO countries and importing countries preferential tariff arrangements (such as those of the U.S. with countries such as Mexico), will be the major factors influencing the geographical sourcing of T&C imports of the U.S. and other major T&C importers. The countries whose T&C industries are assessed by the report include (1) significant ATC suppliers to the U.S market, (e.g., China and other low cost-supplier countries, whose T&C exports typically were effectively constrained by U.S. T&C import quotas); (2) Mexico and other major suppliers receiving U.S. preferences for qualifying textiles and apparel articles.

MAIN FINDINGS OF THE REPORT

The commission selected 35 countries that represented more than 80 percent of the total value of the U.S textiles and apparel imports in 2002. Many of the selected countries depend heavily on textiles and apparel for more than 50 percent of their total merchandise exports and are a major of employment and export earnings.

- For most U.S importers such as large apparel companies and retailers, China is expected to become a major T&C supplier because of its low operating costs, particularly labor costs, and ability to make any type of T/C product at any quality level. However, the extent of China's domination will be tempered by the use made of safeguard provisions contained in the China's WTO accession protocol.
- In order to reduce the risk of sourcing from a single country or region, U.S. importers plan to expand trade relations with other low-cost countries, particularly with India, Pakistan and Bangladesh.
- The Caribbean Basin Economic Recovery Act (CBERA) area, particularly in Central America would continue to be an alternative source of T&C imports for some U.S. firms, if a Central American or hemispheric free-trade agreement is negotiated permitting use of regional fabrics (e.g. Mexican) or third-country fabrics (e.g. Asian).
- Production of certain goods is likely to remain in Mexico and the CBERA regions to service U.S. buyers' quick turn around or mid-season order requirements when retailers are chasing the latest trends, and social conditions may make it seem a risky sourcing choice styles or colors.
- Vietnam and, to a lesser extent, Indonesia are considered competitors with China and/or India as alternative low cost suppliers since both countries offer abundant low cost labor supplies. But as long as Vietnam is not a WTO member it does not qualify for quotas elimination, while Indonesia's political and social conditions may make it seem a risky sourcing choice

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HOW TO ACCESS THIS REPORT: For more information on *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market,* click on: http://hotdocs.usitc.gov/pub3671/main.html

Other sources to consult: Cline, William R. *The Future of World Trade in Textiles and Apparel, Institute for International Economics*, Washington, D.C., 1987 (especially for its description and analysis in its chapters 6 through 9 of the three MFAs through 1987, the MFA-IV negotiation and the system of T&C quotas prior to the inception of the first MFA in 1974).

ANNEX: HISTORICAL BACKGROUND: From the 1930s onward, clothing and textiles imports into the U.S. and other developed countries have been controlled by high tariffs and/or by unilaterally imposed or bilaterally negotiated quotas.[3] Quotas imposed or bilaterally negotiated by one major T&C importing country would typically result in displacement of T&C imports from that importing country to other major T&C importing countries, causing difficulties for their T&C industries. Thus an internationally agreed arrangement was sought and, for the first time, attained starting in 1961 in the form of a Short Term and then a Long Term Multifiber Arrangement the next year. From 1974 until the end of the Uruguay Round, a series of multiyear Multifiber Arrangements governed the importing countries' T&C quotas. When imports of particular T&A products caused or threatened to cause serious injury to the industry of a T&C importing country, the MFA provided the importing country the flexibility to apply or negotiate selective quantitative restrictions. The MFA was particularly intended to deal with market disruption[4] in major T&C importing countries (developed countries), while allowing T&C-exporting developing countries to expand their textile and apparel export trade. Room for growth of their T&C exports was allowed, since under the MFA quotas were scheduled to be enlarged by certain amounts and unused portions of quotas were allowed to be carried forward. (This flexibility allowed a surge of T&C imports into the U.S. in 1985). T&C quotas were applied only to developing country exports by developed country T&C importers, not to T&C exports from other developed countries. Regulation of the T&C trade by quotas was a major departure from the principles of the basic General Agreement on Tariffs and Trade (GATT) rules and the principle of non-discrimination. Rationalizing them with the device of an MFA somehow made the departure from the principles seem less glaring.

On January 1, 1995, the then existing MFA was replaced by the Agreement on Textiles and Clothing (ATC) coming into force with the WTO agreements in 1995. The ATC required countries to integrate T&C articles into GATT 1994 over a 10-year transitional period and set out the ten-year transitional process for the ultimate removal of these quotas. Quotas were to be removed in four stages, with an increasing number of products included at each stage. Quotas on articles corresponding to sixteen percent 16% of each importing country's 1990 T&C imports were to be freed of quotas by January 1, 1995, then, an additional 17% by January 1, 1998, 18% by January 1, 2002 , and finally quotas were to be totally eliminated as of January 1, 2005. Under the ATC agreement countries are required to "integrate" textile and apparel articles under GATT disciplines subject to the same rules as products of other sectors. In case of the U.S. T&A articles brought under GATT discipline in the early stages of the 10-year process were those not under quota, while quota-abolition for the most sensitive articles – i.e., those under the most tightly binding quotas, was to not take place until January 1, 2005. In the meantime, though, quotas on such articles had to be increased (i.e. relaxed) by a significant amount each year. All signatories to the WTO were to be under the ATC-imposed obligation to end quotas and only signatories to the WTO were to benefit from the ATC.

ENDNOTES TO TEXT AND ANNEX

1 The term Textiles and Clothing and its acronym T&C in this technical briefing will be used as synonymous with the term Textiles and Apparel and its acronym, T&A, since the Agreement on Textiles and Clothing is effectively an agreement on textiles and apparel.

2 For example under the protocol of China's 2001 WTO accession, the U.S. and other importing countries can apply selected safeguards (quotas) on China T&C items and the U.S. and China have signed a 4-year market-access agreement along these lines involving quotas.

3 The sources of importing countries T&C imports have also been affected by preferential tariffs (e.g. the U.K. imperial preference applied during the Great Depression). The motive was protection of the tariff or quota imposing countries' own T&C industries or those of their favored T&C supplier countries.

4 "Market disruption" is operationally defined, according to Cline (1987, p. 147) as "instances of sharp import increases associated with low import prices not attributable to dumping or foreign subsidies," a concept developed and applied to the T&C sector in GATT discussions of 1959 and 1960.